

Memorandum



Date: July 1, 2014

To: Honorable Chairwoman Rebeca Sosa
and Members, Board of County Commissioners

Agenda Item No. 5(B)

From: Carlos A. Gimenez
County Mayor

Subject: Resolution Authorizing Termination, Extension and Suspension of Payments to the County
with respect to three County CDT Swaps

This item was amended at the June 10, 2014 meeting of the Finance Committee to revise the Resolution to: 1) include "/Deutsche Bank A.G." after the words "Loop Financial Products I LLC" in the first whereas clause; 2) replace all references to "Loop" with "Counterparty" beginning in the second whereas clause; and 3) insert "including modifying any terms to maximize the economic benefits without materially increasing the risk to the County of the Swap Restructuring, undertaking a competitive process to select a new Counterparty if negotiations with the current Counterparty are unsuccessful and presenting the results of such competitive process to this Board" at the end of Section 4 of the resolution. The revisions were incorporated into the Mayor's memorandum accordingly.

Recommendation

It is recommended that the Board of County Commissioners (Board) adopt the accompanying resolution (Swap Resolution), which approves the restructuring of three interest rate swap agreements (Swaps) with Loop Financial Products related to the County's Convention Development Tax (CDT) Bonds. The purpose of the restructuring is to replenish the CDT shortfall reserve, which Board action required as part of the legislation that approved Marlins Ballpark financing. As part of the adopted budget, the balance of the shortfall reserve had been redirected in the current fiscal year to support CDT-eligible expenses in the Park, Recreation and Open Spaces Department to help balance the FY 2013-14 Budget.

Fiscal Impact/Funding Source

The restructuring of the three Swaps will alter their cash flows and will result in: (1) an upfront payment to the County of not less than \$30 million, which will replenish the CDT shortfall reserve; (2) an extension of two of the swap agreements until 2037, which matches the latest payment date of their underlying bond issue (2012 CDT Bonds) and a suspension of their quarterly swap payments for up to 36 months; and (3) the termination of the third swap agreement. It is the combination of items #2 and #3 above that generates the \$30 million upfront payment.

Scope

The Swap Resolution will have a countywide impact.

Track Record/Monitoring

The programming and use of the payment to be received by the County are managed through the annual budget process under the auspice of the Office of Management and Budget. If approved, the Restructuring will be negotiated by the County Mayor in accordance with the Swap Resolution and managed by the Finance Department, Division of Bond Administration, Frank P. Hinton, Director.

Background

An interest rate swap agreement is a contractual arrangement with a third party, usually an investment banking firm (Counterparty), which serves as a debt management tool to manage interest payments within the debt portfolio. In 2000 and 2004, the County entered into three swap agreements using the

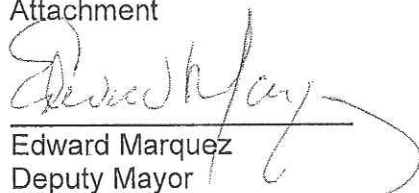
principal repayment of the Series 1996 and 1997 Convention Development Tax Bonds as the base for interest payments calculations.

As presented in the FY 2013-14 Proposed Budget, which was subsequently adopted by the Board, the CDT shortfall reserve was drawn upon to provide funds to support CDT-eligible expenses in the Parks, Recreation and Open Spaces Department. In order to replenish the reserve, staff originally contemplated the termination of all three CDT Swaps, as they were "in the money" meaning that market conditions were such that the unwinding of the Swaps would generate positive cash flow in the vicinity of the desired \$30 million. The Counterparty on the agreements, Loop Financial Products, suggested an alternative idea of terminating one of the Swaps and restructuring the remaining two. After thoroughly vetting the concept with the County's Swap Advisor, Swap Financial Group, it was determined that, under the current market conditions, the County could not only receive a \$30 million payment, but also continue to receive swap receipts, and maintain the approximate current level of swap exposure through the restructuring of the Swaps. A more detailed technical description of the proposed transaction is included as Attachment I.

The Resolution further authorizes and directs the County Mayor, County Mayor's designee, the Finance Director, the Clerk of the Board, the County Attorney and other officers, employees and agents of the County to do all acts and things and to execute and deliver any and all documents and certificates which they deem necessary or advisable in order to finalize the Swap Restructuring, including modifying any terms to maximize the economic benefits without materially increasing the risk to the County of the Swap Restructuring, undertaking a competitive process to select a new Counterparty if negotiations with the current Counterparty are unsuccessful and presenting the results of such competitive process to this Board.

Resolution R-130-06 provides that any County contract with a third party be finalized and executed prior to its placement on a committee agenda by the County Mayor. If documents need to be executed and delivered in order to terminate a County Swap, such terms and final execution will not occur until after the effective date of the Swap Resolution in order to provide the County maximum flexibility in the market as described above. Therefore, a waiver of Resolution R-130-06 is required.

Attachment



Edward Marquez
Deputy Mayor

ATTACHMENT 1

Technical Description

The County shall receive an upfront payment of no less than \$30 million, in exchange for the following

Terminated Swap

Terminate the *CDT 96-2000 Swap* with Loop with a contract value of \$61.9 million and a termination value of \$3,992,928 as of April 30, 2014. Total swap payments that the County has received to January 1, 2014 is \$12.3 million since inception in 2000. This Swap is scheduled to terminate on October 1, 2022. This Swap termination will contribute an estimated \$2.1 million of the total \$30 million upfront payment.

Extended Swaps

1. *CDT 97-2000 Swap* with Loop with a contract value of \$266.7 million and a termination value as of April 30, 2014 is \$16,470,487. Total swap receipts to January 1, 2014 have been \$44.3 million since inception in 2000. This Swap is scheduled to terminate on October 1, 2022. This Swap will be extended to October 1, 2037 (which will match the principal repayment schedule of the associated bonds) which will contribute an estimated \$14.3 million of the total \$30 million upfront payment, in addition to future quarterly swap payments after the Suspension Period.
2. *CDT 97-2004 Swap* with Loop with a contract value of \$155.2 million and a termination value as of April 30, 2014 is \$12,381,902. Total swap receipts to January 1, 2014 have been \$18.6 million since inception in 2004. This Swap terminates on October 1, 2022. This Swap will be extended to October 1, 2037 (which will match the associated bonds) which will contribute an estimated \$8.3 million of the total \$30 million upfront payment, in addition to future quarterly swap payments to be made after the Suspension Period.
3. All quarterly swap receipts will be suspended for a period not to exceed 36 months, which will contribute an estimated \$5.2 million of the \$30 million upfront payment.

Risk Assessment

All interest rate swaps are accompanied by an element of risk, which are considered and negotiated before entering into a swap. Risks that affect the relationship between the County and counterparty such as Loop include:

1. Counterparty risk, meaning that the party other than the County will fail to perform;
2. Interest rate risk is the effect fluctuations in interest rates will have on how much and which party makes swap payments to the other party;
3. Tax rate risk is the affect that a proposed change or actual change in the Federal tax law will have on the relationship between taxable and tax-exempt interest rates which will impact how much and which party makes swap payments to the other party (a form of interest rate risk); and
4. Termination risk is the risk that the counterparty will terminate the swap when the County will have to make a termination payment.

Before entering into each of the CDT Swaps, staff mitigated many of these risks. To offset counterparty risk, the County required the counterparty and/or its guarantor to be rated "AA" rated or better, making the likelihood of nonperformance less likely. With respect to termination risk, counterparties were allowed to terminate only upon a County default or a downgrade in the credit

rating on the bonds below BBB from Standard & Poors or below Baa2 from Moody's, eliminating the option to terminate the swap when termination values were in the counterparty's favor. To mitigate interest rate and tax change risk, interest rate movements and the relationship between tax exempt and taxable interest rates were negotiated to achieve the most favorable position for the County by staff and the County's swap advisor. Although the extension of the Extended Swaps will increase the County's swap exposure, it will be offset by the termination of the CDT 96-2000 Swap, the continued swap payments the County may receive (assuming favorable market conditions) and the annual reduction of the amount of Extended Swaps that is outstanding equal the amount of the annual principal paid by the County on the 2012 CDT Bonds, which refunded the Series 1997 Bonds and serve as the basis for determining the nominal amount.

The County has an opportunity to receive a payment of \$30 million as a result of the restructuring. It will reduce the quarterly payments the County would have received from the terminated swap and the Extended Swaps for up to 36 months, but that revenue loss is significantly less than the upfront payment and will be easily offset by the projected growth of CDTs. The actual number of months the payments will be suspended will be based on the market. It is currently estimated that the Suspension will be for 12 months based on current market conditions. The final terms of the restructuring will depend on market conditions at the time it is finalized. This restructuring will be executed only if the proceeds from the restructuring amount to at least \$30 million.



MEMORANDUM

(Revised)

TO: Honorable Chairwoman Rebeca Sosa
and Members, Board of County Commissioners

DATE: July 1, 2014

FROM: 
R. A. Cuevas, Jr.
County Attorney

SUBJECT: Agenda Item No. 5(B)

Please note any items checked.

- ☐ "3-Day Rule" for committees applicable if raised
- ☐ 6 weeks required between first reading and public hearing
- ☐ 4 weeks notification to municipal officials required prior to public hearing
- ☐ Decreases revenues or increases expenditures without balancing budget
- ☐ Budget required
- ☐ Statement of fiscal impact required
- ☐ Ordinance creating a new board requires detailed County Mayor's report for public hearing
- ☐ No committee review
- ☐ Applicable legislation requires more than a majority vote (i.e., 2/3's ____, 3/5's ____, unanimous ____) to approve
- ☐ Current information regarding funding source, index code and available balance, and available capacity (if debt is contemplated) required

Approved _____ Mayor
Veto _____
Override _____

Agenda Item No. 5(B)
7-1-14

RESOLUTION NO. _____

RESOLUTION AUTHORIZING COUNTY MAYOR OR COUNTY MAYOR'S DESIGNEE TO TERMINATE ONE INTEREST RATE SWAP AND TO SUSPEND PAYMENTS TO COUNTY AND EXTEND TERM OF TWO OTHER INTEREST RATE SWAPS WITH LOOP FINANCIAL PRODUCTS I LLC WITH RESPECT TO CERTAIN SPECIAL OBLIGATION AND REFUNDING BONDS SECURED BY CONVENTION DEVELOPMENT TAX; PROVIDING THAT PAYMENT TO BE RECEIVED BY COUNTY BE USED FOR ANY LAWFUL PURPOSE OF COUNTY; AND AUTHORIZING COUNTY OFFICIALS TO TAKE ALL ACTIONS NECESSARY TO ACCOMPLISH SUCH PURPOSES

WHEREAS, the County currently has with Loop Financial Products I LLC >>/Deutsche Bank AG<<¹ [[("Loop")]] >>(the "Counterparty")<<, one interest rate swap ("Series 1996B Swap") with respect to the County's Special Obligation and Refunding Bonds, Series 1996B (the "Series 1996B Bonds") which are secured primarily by convention development tax revenues and two interest rate swaps with respect to the County's Subordinate Special Obligation and Refunding Bonds, Series 1997A and Subordinate Special Obligation Bonds, Series 1997B and Series 1997C (collectively, "Series 1997 Swap" and with the Series 1996B Swap, the "CDT Swaps") which are secured primarily by convention development tax revenues (collectively, "Series 1997 Bonds"); and

WHEREAS, upon the termination of the Series 1996B Swap, the suspension of the Series 1997 Swap payments to be received by the County from >>the Counterparty<< [[Loop]] for up to thirty-six (36) months and the extension of the Series 1997 Swaps, a payment will be

¹ Committee amendments are indicated as follows: words stricken through and/or [[double bracketed]] shall be deleted, words underscored and/or >>double arrowed<< constitute the amendment proposed.

made to the County by >>the Counterparty<< [[Loop]] in an amount that will be based on market conditions at the time of the restructuring of the CDT Swaps but in no event less than thirty million dollars (\$30,000,000.00) (the "Swap Restructuring"); and

WHEREAS, due to the substantial payment to the County and related debt management considerations as more fully described in the accompanying County Mayor's memorandum which is incorporated in this Resolution by reference ("Mayor's Memorandum"), this Board wishes to authorize the County Mayor or County Mayor designee to finalize the Swap Restructuring; and

WHEREAS, this Board wishes to use the payment to be received by the County from >>the Counterparty<< [[Loop]] for any lawful purpose of the County,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF MIAMI-DADE COUNTY, FLORIDA, that:

Section 1. The foregoing recital clauses are incorporated in this resolution.

Section 2. The Board authorizes the County Mayor or County Mayor's designee to: (1) terminate the County's Series 1996B Swap, (2) suspend the payments on the Series 1997 Swaps to be received from the County from >>the Counterparty<< [[Loop]] for up to thirty-six (36) months, and (3) extend the term of the Series 1997 Swaps in exchange for a payment to the County from >>the Counterparty<< [[Loop]] of not less than thirty million dollars (\$30,000,000.00) (the "Loop Payment") for the reasons set forth in the Mayor's Memorandum.

Section 3. The >>Counterparty<< [[Loop]] Payment to the County may be used for any lawful purpose of the County.

Section 4. The County Mayor, County Mayor's designee, the Finance Director, the Clerk of the Board, the County Attorney and other officers, employees and agents of the County

are authorized and directed to do all acts and things and to execute and deliver any and all documents and certificates which they deem necessary or advisable in order to finalize the Swap Restructuring >>, including modifying any terms to maximize the economic benefits without materially increasing the risk to the County of the Swap Restructuring, undertaking a competitive process to select a new Counterparty if negotiations with the current Counterparty are unsuccessful and presenting the results of such competitive process to this Board.<<

Section 5. The provisions of Resolution No. R-130-06 requiring that any contracts of the County with third parties be executed and finalized prior to their placement on the committee agenda by the County Mayor is waived at the request of the County Mayor for the reasons set forth in the Mayor's Memorandum.

The foregoing resolution was offered by Commissioner
who moved its adoption. The motion was seconded by Commissioner
and upon being put to a vote, the vote was as follows:

Rebeca Sosa, Chairwoman
Lynda Bell, Vice Chair

Bruno A. Barreiro
Jose "Pepe" Diaz
Sally A. Heyman
Jean Monestime
Sen. Javier D. Souto
Juan Zapata

Esteban L. Bovo, Jr.
Audrey M. Edmonson
Barbara J. Jordan
Dennis C. Moss
Xavier L. Suarez

The Chairperson thereupon declared the resolution duly passed and adopted this 1st day of July, 2014. This resolution shall become effective ten (10) days after the date of its adoption unless vetoed by the Mayor, and if vetoed, shall become effective only upon an override by this Board.

MIAMI-DADE COUNTY, FLORIDA
BY ITS BOARD OF
COUNTY COMMISSIONERS

HARVEY RUVIN, CLERK

By: _____
Deputy Clerk

Approved by County Attorney as
to form and legal sufficiency.

Gerald T. Heffernan

